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2013 DEC 18 P 4 09

AZ CORP COMMISSION
DOCKET CONTROL

Suzanne Nee
2051 E. Aspen Drive
Tempe, AZ 85282
Telephone: 602-451-0693

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND
PROPERTY AND FOR INCREASES IN ITS
WATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

Arizona Corporation Commission

DOCKETED

DEC 18 2013

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF PAYSON WATER CO., INC., AN
ARIZONA CORPORATION, FOR
AUTHORITY TO: (1) ISSUE EVIDENCE
OF INDEBTEDNESS IN AN AMOUNT
NOT TO EXCEED \$1,238,000 IN
CONNECTION WITH INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY
SYSTEM; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

SURREBUTTAL TESTIMONY

Pursuant to the Procedural Order issued on Dec. 9, 2013, Suzanne Nee, "SN", is granted intervention in the above-captioned matter. Suzanne Nee motioned to be an Intervener on October 28, 2013. SN has been a customer of Brooke Utilities/Payson Water Company since 1999.

SN is a long-standing residential customer served by the Public Service Utility Company, Payson Water Company, "PWC", residing part-time within the physical boundaries in the community of Mead Ranch, "MR", that is part of the former Brooke Utilities system and has a vested interest in the ramifications of these proceedings.

SN would like to have attended the Phase 1 Public Hearing at 10:00 am at the Arizona Corporation Commission and give public comment. However, SN was not able to do this due to the method of mailing this information. PWC was required to put the a **Public Notice of Applications by Payson Water Co., Inc., Docket Nos. W-03514A-13-0111 and W-03514A-0142 (consolidated)** into the September bill per the Procedural Order issued on September 10, 2013. President Jason Williamson signed an Affidavit that PWC mailed the notices of rate increases and financing on September 18 and 19, 2013. However, the mailing received by SN was

1 not marked on the outside of the envelope with the Payson Water Company name nor either of
2 the two known company addresses as the August bill was marked. See **Exhibit A** – SN's August
3 PWC bill with PWC name, JW Holdings, LLC and 7581 E. Academy Blvd., Suite 229, Denver, CO
4 80230 clearly marked on the mailing. Compare this mailing with the September bill SN received
5 from PWC, **Exhibit B**. There is no company name in the return address. The address listed is: c/o
6 5135 E. Ingram St., Mesa, AZ 85205. SN believe she and likely other Payson Water Company
7 customers did not recognized and open this mailing which she/they considered to be "Junk mail."
8

9 **The Public Notice of Applications by Payson Water Co. Inc., Docket Nos. W-03514A-**
10 **13-0111 and W-03514A-0142 (consolidated)** listed two addresses for Payson Water Company:
11 7581 E. Academy Blvd., Suite 229, Denver, CO 80230 and 1010 S. Stover Road, Payson, Arizona.
12

13 I would like to know:

- 14 1) Why wasn't the mailing sent from PWC clearly marked with the company's name and
15 either of the two known business addresses?
- 16 2) With all the junk mail sent these days, why wouldn't a reasonable person just toss this
17 mailing from an unknown source into the trash?
- 18 3) Does the Arizona Corporation Commission feel that Payson Water Company complied
19 with Procedural Order issued on September 10, 2013, even though they did not identify
20 their company name and address and did not reach all their customers in a timely manner
21 in compliance with Procedural Order issued on September 10, 2013?
22

23 This puts customers who oppose the proposed rate increase and consolidation of the 8
24 communities at a distinct disadvantage from the start. This mailing was my first introduction to
25 Payson Water Company president, Jason Williamson. If this is an example of the kind of
26 professionalism and concern he has for his customers, even with possible scrutiny and oversight
27 by the ACC, he is not operating PWC with openness and concern for the needs of his customers.
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EXHIBIT A

Payson Water Company, Inc.
c/o JW Water Holdings, LLC
7581 E Academy Blvd. Suite 229
Denver, CO 80230

CHANGE SERVICE REQUESTED

SUZANNE NEE
2051 E ASPEN DR
TEMPE, AZ 85282-2908

PRESORTED
FIRST-CLASS
MAIL
U.S. POSTAGE
PAID
TMBI

CMY-EP1 85282

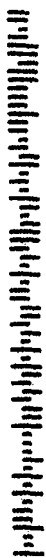
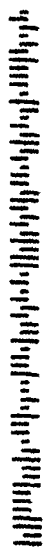


EXHIBIT B

C/O 5135 E. Ingram St.
Mesa, AZ 85205

SUZANNE NEE
2051 E ASPEN DR
TEMPE, AZ 85282-2908

HGRTESS2 05202



1 The Mead Ranch well and infrastructure are not interconnected with any other service
2 area and are self-sufficient. Mead Ranch is located approximately 14 miles northeast of the
3 intersection of Highway 87 and Highway 260 East, then left on Control Road 64 approximately 4
4 miles west, then right Forest Road 29 approximately another 4 miles north. The majority of the
5 homes in Mead were built in the 1970s and the majority of the infrastructure is also that old. In
6 my 15 years of being a customer, the previous owner, Brooke Utilities, another for profit
7 company, did nothing proactive to maintain our water system. Our only communications from
8 Brooke Utilities were for rate increases. Since Payson Water Company is also a for profit public
9 water utility and the owners have fiduciary duty to maximize owners profits, we do not have
10 hope for any improvements in the infrastructure of our system even after the proposed rate
11 increases.

12
13 SN and the residents of Mead Ranch are against the consolidation of the eight communities
14 for rate making and also against the proposed rate hikes. Each system is unique and has its own
15 fixed and variable costs in the operation and maintenance of each system. Please explain why it is
16 deemed just and reasonable per Arizona Revised Statute 40-361 to charge all PWC customers the
17 same base fees and rates throughout the various communities served by PWC, without regard to
18 differences in the cost of providing services in the individual communities. SN would like to see a
19 breakdown of the fixed and variable costs for Mead Ranch 2009-2012. We would also like to
20 know a proposed fair and reasonable base rate based on our fixed costs and the tiered rates to
21 cover our variable costs and a fair and reasonable return to the owner. We do not see any benefit
22 to us for the proposed Cragin-TOP project.

23
24 Referring to Document 0000145511 of Docket W-03514A-13-0111, dated April 22, 2013:
25 Per Testimony by PWC's accountant, Mr. Bourassa, the O& M recovery surcharge (for the MDC-
26 Cragin Pipeline) [Bourassa Testimony, p19], Mr. Bourassa responds, "In the next rate case, I
27 anticipate the recovery of the O&M costs would be included in base rates and the O&M Cost
28 Recovery Surcharge would be discontinued." In light of PWC's stated objective to consolidate
29 rates for all of its systems into one, this suggests that in the next rate case the O&M costs for the
30 MDC-Cragin Pipeline will be included in base rates for all customers of PWC, not only customers
31 of MDC. This contradicts PWC's previous statements in the referenced document that costs of
32 MDC Cragin project will be paid entirely of PWC customers in the MDC community. Please
33 explain.

34
35 Referring to Mr. Bourassa's Rebuttal Testimony, he still is maintaining Payson Water
36 Company's required Rate of Return is 11%. This is based on his Schedule D4.11, p.268 of
37 Document 0000145511. In these calculations, although Mr. Bourassa is speaking strictly about
38 PWC, which is a public water utility, he uses in his calculations trying to arrive at a Return on
39 Assets percent, the average current dividend yield from dividend paying stocks using Value Line
40 1700. So his yield does not accurately reflect dividend yields from public water utility stocks. In
41 addition, in this same calculation, Mr. Bourassi uses the average 3-5 year price appreciation from
42 Value Line 1700 stocks. This does not accurately reflect public water utility stocks.

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44 Mr. Bourassa could have used the Value Line stocks themselves- Exhibit C
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EXHIBIT C

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1 I believe that staff Crystal Brown's estimate of a 6.4% on p. 10, **Document 0000149555-**
2 **Direct Testimony** return is more appropriate and should be used by PWC.
3

4 Mr. Hardcastle, previous owner of Brooke Utilities/PWC stated on p.54, referring to
5 **Document 0000145511 of Docket W-03514A-13-0111**, dated April 22, 2013, "Mesa Del
6 Caballo does not have sufficient supplies of water during high demand months of May through
7 October."
8

9 Per company data, **Document 0000145511 of Docket W-03514A-13-0111, Exhibit A,**
10 **p.44**, the Mesa Del Caballo water shortage in 2012 appeared to be 508 gallons purchased in May,
11 2874 gallons purchased in September, 12 gallons purchased in October, and 10 gallons purchased
12 in December - Exhibit D.
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EXHIBIT D

Company data from p. 44, Exhibit A below:

COMPANY NAME: Payson Water Co., Inc.
Name of System: Mesa del Caballo ADEQ Public Water System Number: PWS 04-030

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2012

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	364	1001	1005	
FEBRUARY	361	1010	1170	
MARCH	364	940	977	
APRIL	364	1093	1192	
MAY	361	1125	1187	508
JUNE	362	1279	1226	
JULY	365	1292	1298	
AUGUST	360	1129	1163	
SEPTEMBER	362	1072	1243	2874
OCTOBER	363	1022	1105	12
NOVEMBER	363	951	1003	
DECEMBER	364	1029	1066	10
TOTALS →		12948	13441	3404

1 It appears that PWC's only proposal for handling this shortfall of water, only
2 significantly short for the months of May and September is to implement the MDC-Cragin Pipeline
3 project at a large capital expenditure to its customers. This project is in the best interest of the
4 owners of PWC, since they will present rate increases based on the return on the proposed
5 project's assets.
6

7 A more cost effective approach would be for PWC to purchase a Water Tank Hauler truck.
8 Doing an internet search in Arizona for such an Asset, I was able to find these trucks now
9 available in Arizona - Exhibit E. This asset could be acquired far in advance of next summer's
10 deadline for the MDC customers. An extra benefit to the Payson community is that PWC could
11 hire a part-time driver from the Payson area at least part-time during this high demand time
12 period.
13

14 These trucks range in price from \$22,500 to a new truck for \$114,000. If PWC was to
15 purchase the used \$22500 truck with only 19,155 miles and a 4,000 gallon capacity, they could
16 spread this expense to the 364 MDC customers over a 12 month period at a cost of
17 $\$22,500 / (364 * 12) = \5.15 a month adder to MDC customers. They would also have the truck
18 and driver available to handle any shortages at the East Verde Park Community.
19

20 Please explain why this more cost effective solution to the high demand shortages or a
21 similar solution was not thought of or proposed by PWC management? This solution is more cost
22 effective to the entire system's O&M expenses and also provides at least part-time work for an
23 individual in the Payson area.

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EXHIBIT E

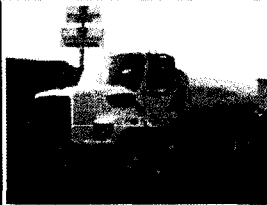
YEAR	MANUFACTURER	MODEL	STOCK/VIN	PRICE (US \$)	LOCATION
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FEATURED LISTINGS

New 2013 FREIGHTLINER 108SD

US \$114,000

AZ



(Qty: 3) Cummins Engine 300 hp; 8LL; TufTrac Suspension; 318/80R22.5 11R22.5 Tires; All Steel Wheels; Drive Side: Left Hand Drive; (3) NEW INTERSTATET TRUCK BODIES 4000 GALLON WATER TRUKCS, 2 FRONT, 1 SIDE, 2 REARS AIR SPRAYS, AIR CONTROLS...

Interstate Truck, Trailer, & Equipment

Phone: (888)904-5499

Fax: (602)269-5021

[Details & Photo\(s\)](#)

[Send A Message](#)

[Add To Watch List](#)

Share On  

Updated: 11/11/2013 10:58:00 AM

1999 FREIGHTLINER FL80

Stk #CN11225

US \$24,000

AZ



Diesel Fuel Type; Tandem Axle; Drive Side: Left Hand Drive;

EMPIRE MACHINERY

Phone: (888)628-0943

Fax: NA

[Photo\(s\)](#)

[Send A Message](#)

[Add To Watch List](#)

Share On  

Updated: 12/3/2013 5:46:00 PM

GENERAL LISTINGS

1987 AM GENERAL M923

Stk #414302

US \$25,000

AZ



(Qty: 2) Cummins Engine 240 hp; 19,155 mi; Diesel Fuel Type; Automatic; Spring Suspension; 14.00 R 20 Tires Tires; All Steel Wheels; Tandem Axle; 4,000 gal Capacity; 40 lb Rear Axle Weight; 20 lb Front Axle Weight; Drive Side: Left Hand Drive;

PARK WESTERN LEASING INC

Phone: (800)220-2955

or (480)831-6002

[Details & Photo\(s\)](#)

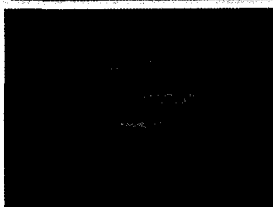
[Send A Message](#)

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Share On  

Updated: 12/16/2013 9:44:00 AM

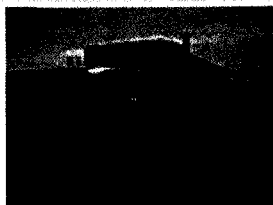
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1987 AM GENERAL M923**Stk #1536****US \$22,500****AZ**

Cummins Engine 240 hp; 19,155 mi; Diesel Fuel Type; Automatic; Spring Suspension; 1400 R 20 Tires; All Steel Wheels; Tandem Axle; 4,000 gal Capacity; Steel Composition; 5:24 Ratio; Drive Side: Left Hand Drive; This is a 1987 AM General 5 Ton...

Tom Donaldson Equipment**Phone: (888)716-8781****or (602)818-4391****Fax: 18886024611**[Details & Photo\(s\)](#)[Send A Message](#)[Add To Watch List](#)**Share On**  

Updated: 12/18/2013 7:17:00 AM

1984 AM GENERAL M923**Stk #1535****US \$22,500****AZ**

Cummins Engine; 47,714 mi; Diesel Fuel Type; Automatic; Spring Suspension; 1400 R 20 Tires; All Steel Wheels; Tandem Axle; 4,300 gal Capacity; Steel Composition; 20,000 lb Rear Axle Weight; 20,000 lb Front Axle Weight; Drive Side: Left Hand Drive;

Tom Donaldson Equipment**Phone: (888)716-8781****or (602)818-4391****Fax: 18886024611**[Details & Photo\(s\)](#)[Send A Message](#)[Add To Watch List](#)**Share On**  

Updated: 12/18/2013 7:18:00 AM

1 SN and fellow Mead Ranchers urge the PWC and the Arizona Corporation Commission take
2 the above solution into consideration as a "fair and reasonable" alternative for PWC customers.
3 Also, in a similar consolidated rate structure case, Docket #W-01303A-09-0343, Decision 73227,
4 Section B- Cost of Service/Public Policy, Page 16, states: "RUCO argues that separate rates for
5 separate systems respect the principle of traditional cost of service ratemaking and ensure that
6 those who use utility services pay for them, and that only when policies in support of rate
7 consolidation outweigh the principle of cost of service ratemaking should rates be consolidated."
8

9 SN also submits Food and Water Watch, Fact Sheet June 2009, "Questions & Answers: A
10 Cost Comparison of Public and Private Water Utility Operation - Exhibit F. Page 1, "Q. Does profit
11 motive encourage private utilities to reduce cost? A. No, in fact, profit motive can drive up costs.
12 Because of state price regulation, private water utilities tie higher earnings to increased costs.
13 They earn a rate of return on investment, so that the more they spend on a system, the more they
14 profit."
15

16 Also, Table 1., Comparison of Annual Household Water Bills of Public and Private Utilities by
17 State(s)
18

19 Arizona Annual Household Bill, Municipal or Local Government Utility: \$225.00, Private or
20 Investor Owned Utilities: \$329.40, Percent that Private Prices are Greater = 46%.
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EXHIBIT F

Questions & Answers: A Cost Comparison of Public and Private Water Utility Operation

Fact Sheet • June 2009

Several members of Congress, as well as the Obama administration, have recognized the need to improve our country's valuable drinking water and wastewater systems. They are pursuing commendable policies, including reauthorization of the Clean Water Act and creation of a Clean Water Trust Fund, which will help improve water quality and protect waterways across the nation.

While working through the details of such legislation, it is important to ensure wise allocation of taxpayer money. Because of the underlying costs associated with private operation, the public should not subsidize for-profit water services. Below are common questions with answers that can help clarify why public money for public utilities is the best deal for taxpayers.

Q. Do private utilities charge more for water and sewer service?

A. Yes, compared to local governments, private utilities charge the typical household 33 percent more for water (see table 1) and 63 percent more for sewer service (see table 2). For several states, the difference is even starker. In Delaware, investor-owned utilities charge 75 percent more than municipalities do for water.¹ In Texas, American Water charges two and a half times as much as the typical municipality for sewer service.²

Q. Are private water utilities more efficient than public utilities?

A. No, private utilities are not more efficient than public utilities, according to a meta-analysis of 17 econometric studies about privatization and costs in water distribution by professors from the University of Barcelona and Cornell University.³⁹

Q. Does profit motive encourage private utilities to reduce costs?

A. No, in fact, profit motive can drive up costs. Because of state price regulation, private water utilities tie higher earnings to increased costs. They earn a rate of return on investment, so that the more they spend on a system, the more they profit.

Table 1. Comparison of Annual Household Water Bills of Public and Private Utilities By State(s)

State(s)	Annual Household Bill Municipal or Local Government Utility	Private or Investor Owned Utilities	Percent that Private Prices are Greater
Alaska ³	\$441.84	\$458.79	4%
Arizona ⁴	\$225.00	\$329.40	46%
Arkansas ⁵	\$273.83	\$344.68	26%
California ⁶	\$415.86	\$500.42	20%
Connecticut ⁷	\$300.72	\$398.13	32%
Delaware ⁸	\$256.20	\$449.40	75%
Florida ⁹	\$300.96	\$360.02	20%
Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin ¹⁰	\$280.44	\$318.72	14%
Illinois ¹¹	\$240.84	\$326.88	36%
Indiana ¹²	\$232.68	\$318.81	37%
Iowa ¹³	\$219.84	\$314.16	43%
Kentucky ¹⁴	\$316.07	\$361.21	14%
Maryland ¹⁵	\$232.50	\$381.00	64%
Massachusetts ¹⁶	\$357.00	\$481.00	35%
Maine ¹⁷	\$331.31	\$362.81	10%
New Hampshire ¹⁸	\$411.70	\$582.00	41%
New Jersey ¹⁹	\$258.00	\$318.00	23%
New Mexico ²⁰	\$259.83	\$356.34	37%
North Carolina ²¹	\$204.12	\$344.76	69%
Ohio ²²	\$444.73	\$510.40	15%
Oregon ²³	\$271.79	\$313.97	16%
Pennsylvania, New Jersey, Maryland ²⁴	\$289.20	\$367.20	27%
Tennessee ²⁵	\$306.00	\$381.00	25%
Texas ²⁶	\$329.40	\$553.80	68%
Utah ²⁷	\$307.23	\$359.05	17%
West Virginia ²⁸	\$375.40	\$456.82	22%
Wisconsin ²⁹	\$252.03	\$400.55	59%
Wyoming ³⁰	\$261.83	\$343.00	31%
Average			33%

Table 2. Comparison of Annual Household Sewer Bills of Public and Private Utilities By State

State	Annual Household Bill		Percent that Private Prices are Greater
	Municipal or Local Government Utility	Private or Investor Owned Utility	
Alaska ³¹	\$348.00	\$625.13	80%
Arizona ³²	\$247.32	\$371.52	50%
Florida ³³	\$452.95	\$519.43	15%
Indiana ³⁴	\$371.16	\$493.56	33%
North Carolina ³⁵	\$285.36	\$567.12	99%
Ohio ³⁶	\$466.00	\$556.66	19%
Texas ³⁷	\$261.72	\$666.00	154%
West Virginia ³⁸	\$382.35	\$410.92	7%
Average			63%

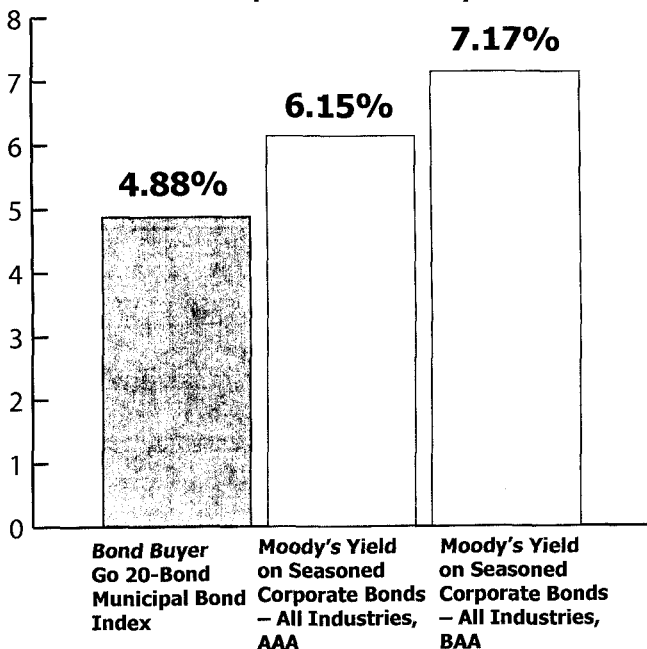
Q. Does privatization reduce the cost of water and sewer projects?

A. No, private management of water and sewer projects often increases costs. A professor of economics from Florida State University studied the construction of 35 wastewater treatment plants and concluded, "These figures suggest that choosing the privatization option is more costly than going with the traditional municipally owned and operated facility."⁴⁰

Q. Does privatization reduce financing costs?

A. No, private financing generally is more expensive than public financing. For example, over the last decade, even the best-rated, or prime, corporate bonds were 26 percent more expensive than the typical municipal general obligation bond, and medium-grade corporate bonds were 47 percent more expensive than municipal bonds (see figure 1).⁴¹

Figure 1: Average Annual Interest Rates for Bonds Issued Between January 1999 and January 2009



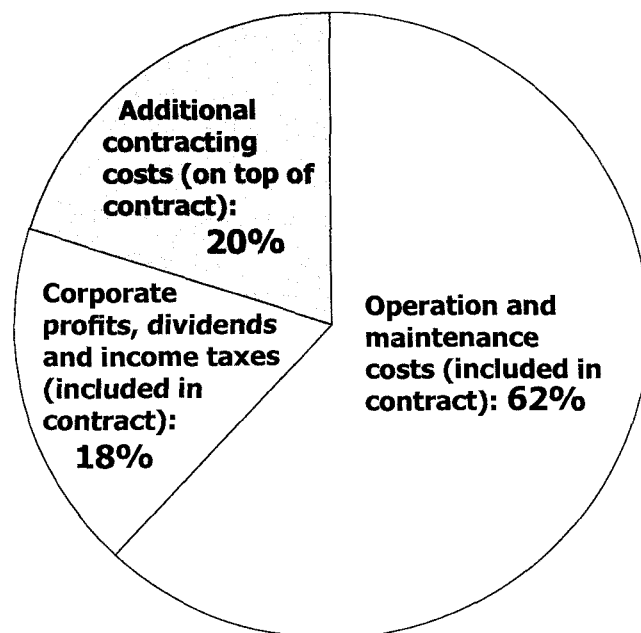
Note:: Average of monthly releases from the Federal Reserve Board



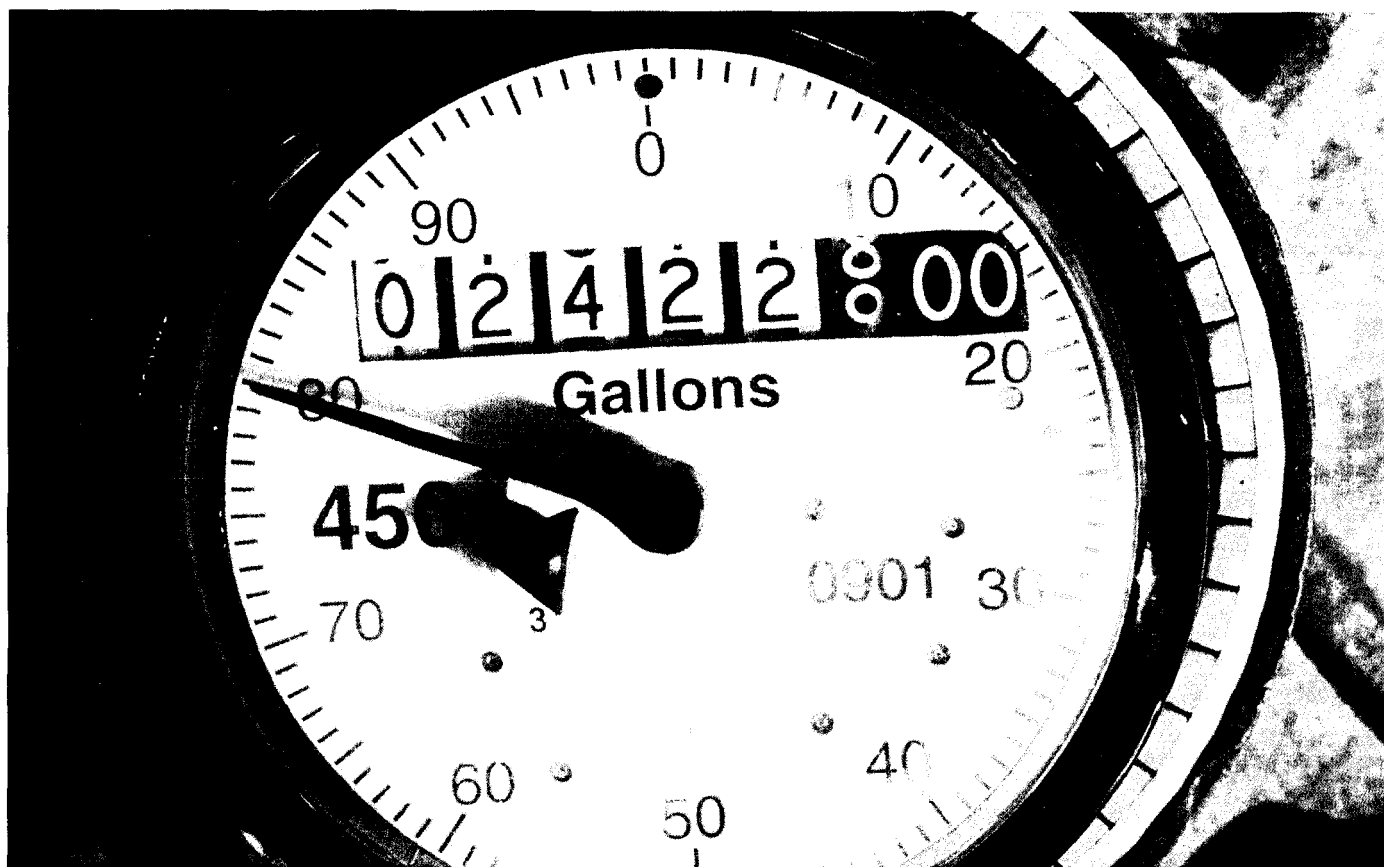
Q. Does competition lead to cheaper contracts and reduced costs?

A. In theory, it would, but in practice, there is little to no competition for water service contracts. Without competition, the public has no room to negotiate and can get stuck with bad and expensive deals. One academic study found that the water market is "rarely competitive."⁴² The nation's massive infrastructure needs may only make this worse as water corporations consolidate for greater access to capital to finance improvement projects.⁴³

Figure 2: Total Cost of Water and Sewer Contracting



Profit requirements, income taxes, contract monitoring and administration and other contracting expenses can add more than 60 percent on to operation and maintenance costs.



Q. How much do profits and taxes affect the cost of water service?

A. In total, corporate profits, dividends and income taxes add 20 to 30 percent onto operation and maintenance costs (see figure 2).⁴⁴

Q. How much does it cost for a municipality to enter into a contract with a private operator?

A. In total, contract monitoring and administration, conversion of the workforce, unplanned work and use of public equipment and facilities can increase the price of a contract by as much as 25 percent (see figure 2).⁴⁵ Other hidden expenses, including change orders, cost overruns and termination fees, can further inflate the price of private service.

Q. What are the cost-cutting measures employed by private operators?

A. When private operators attempt to cut costs, they often use shoddy construction materials, ignore needed maintenance, and downsize the workforce, which impairs customer service. On average, more than one-third of water utility jobs are lost after privatization.⁴⁶ Such neglect hastens equipment breakdowns and increases replacement costs, which the public must pay for. In many contracts, private operators can technically comply with their contract terms while effectively shifting upkeep costs to the public.⁴⁷

Q. Do municipalities lose anything by contracting out water or sewer services?

A. Yes, public operation often has several additional benefits that municipalities can lose when they privatize services: revenue from government entrepreneurial sales

of services and products, including biosolids and wastewater effluent; intra-government coordination to pool resources and assist other government departments; and inter-government coordination to protect water resources, manage watersheds and work for long-term sustainability.⁴⁸

Q. Should the government give out low-interest loans to private water and sewer utilities?

A. No, it is illogical for taxpayers to subsidize investor-owned water utilities that regularly send profits out of local communities to stockholders in distant places. The federal government should invest in public utilities, which will reinvest the money into communities.

End Notes

- 1 Corrozi Narvaez, Martha and Maureen H.S. Nelson. "Synthesis of Water Rates in Delaware and Contiguous States." University of Delaware, College of Human Services, Education & Public Policy, Institute for Public Administration. December 2008 at 5.
- 2 Texas Municipal League. "2009 Annual TML Water and Wastewater Survey Results." 2009 at Wastewater Fees by Population Category Summary; Texas-American Water. [Brochure]. "Notice of proposed sewer rate change." February 21, 2008.
- 3 Regulatory Commission of Alaska. "FY07 Water Rates." February 4, 2008.
- 4 Water Infrastructure Finance Authority of Arizona. "Water and wastewater residential rate survey for the State of Arizona." 2007 at 12.
- 5 Allen & Hoshall. "Arkansas water and sewer rate survey." April 2008 at 5 to 9; U.S. Environmental Protection Agency. Safe Drinking Water Information System Pivot Tables, Public Water System Inventory Data. October 2007.
- 6 Black & Veatch. "2006 California Water Rate Survey." 2006.
- 7 Tighe & Bond. "2007 Connecticut water rate survey." 2007 from 4 to 14.

- 8 Corrozi Narvaez, Martha and Maureen H.S. Nelson, 2008 at 5.
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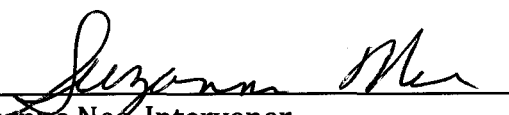
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